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ANNUAL REPORT 1963



KENTING AVIATION LIMITED

1450 O'CONNOR DRIVE, TORONTO 16, ONTARIO, CANADA

File

BOARD OF DIRECTORS

W. H. GODFREY <i>Vice-President, Hunting Survey Corporation Limited</i>	Toronto, Ontario
J. R. HUGHES <i>Chairman, Royal Securities Corporation Limited</i>	Montreal, P.Q.
C. C. HUSTON, Mining Engineer <i>President, C. C. Huston & Associates</i>	Toronto, Ontario
D. N. KENDALL <i>President, Hunting Survey Corporation Limited</i>	Toronto, Ontario
D. A. MCINTOSH, Q.C. <i>Fraser, Beatty, Tucker, McIntosh & Stewart</i>	Toronto, Ontario
J. H. MOWBRAY JONES <i>Chairman, Bowater's Newfoundland Pulp & Paper Mills Limited</i>	Liverpool, N.S.
P. F. OSLER <i>Partner, Meade & Co.</i>	Montreal, P.Q.
D. S. PATERSON <i>Vice-President, N. M. Paterson & Sons Ltd.</i>	Winnipeg, Manitoba
A. F. SOUTAR <i>General Manager, Kenting Aviation Limited</i>	Toronto, Ontario

OFFICERS

MR. D. N. KENDALL	President
MR. W. H. GODFREY	Vice-President
MR. A. F. SOUTAR	General Manager
MR. B. F. KENNERLY	Secretary
MR. M. E. DEDRICK, C.A.	Treasurer

AUDITORS	Price Waterhouse & Co.
SOLICITORS	Fraser, Beatty, Tucker, McIntosh & Stewart
TRANSFER AGENTS	The Royal Trust Co.
STOCK EXCHANGE LISTING	Canadian Stock Exchange
HEAD OFFICE	1450 O'Connor Drive, Toronto 16, Ontario, Canada
OPERATIONS OFFICES—Toronto International Airport, Toronto, Ontario	Telephone: 677-3650.
and Calgary Municipal Airport, Calgary, Alberta.	Telephone: CR. 7-0126
CABLES—KENTAV TORONTO.	

To the Shareholders of Kenting Aviation Limited

I have much pleasure in presenting the audited balance sheet for the year ending 31st December, 1963.

This is our first full year of operations since our Company became publicly owned, although a previous statement for the period September/December 1962 was made available to you last year. We have therefore been able to show you comparative figures in the balance sheet, but not comparative earnings.

The past year has been quite successful from most points of view and has reflected in good earnings. Our operating profits for the year, before taxes, were as follows:

<i>Survey Aircraft Division</i>	\$ 29,000
<i>Charter Division</i>	(178)
<i>Helicopter Division</i>	76,323
	<hr/>
	\$105,145

In addition you will note that we made a profit on the disposal of certain fixed assets of \$94,343 which we have not taken up into surplus for reasons given below.

At the beginning of 1963 we owned three Sikorsky S.55 helicopters which appeared in our books at \$37,628 but which had a value of \$250,000 to \$300,000. Two of these aircraft were under contract in Greenland to a Danish Government Crown Corporation, who in turn made them available to the U.S. Air Force. The contract, which had run for some years, was to terminate in June 1963, unless renewed.

Unfortunately due to changes in U.S. procurement policy it became impossible for the contract to be renewed with us. It was, however, extended to September 1963 and was then awarded to a U.S. company. The latter, however, lacked the required equipment and we therefore arranged to lease our two machines to them under a lease/purchase agreement.

To meet air regulations it was necessary that these machines come under U.S. registry and they had, therefore, to be owned by a U.S. company. Accordingly we arranged for Hunting Mapping, Inc. of Rochester, N.Y. to purchase the two aircraft, paying for them with the lease payments as received. This accounts for the receivable of \$129,742 from Hunting Mapping, Inc. shown in the balance sheet.

In May 1964 our lessee has the option of purchasing the two aircraft by paying the balance of the monies owing, or of returning the aircraft to us. In the latter event lease payments become rental revenue rather than income from disposal of assets. If the option is exercised we will then realize the profit of \$94,343 now deferred. If on the other hand the aircraft are returned to us, we will then take into earnings lease payments and put the aircraft to work on another contract. Meanwhile we have considered it advisable to show the transaction in our books in the most conservative way possible.

K E N T I N G A V I A T I O N L I M I T E D

In the light of the good earnings achieved we decided to make a dividend payment of 15 cents per share to all shareholders of record on February 25, 1964. This payment has since been made.

You will see from the balance sheet that during the year we added \$213,831 to fixed assets. This was mainly accounted for by three aircraft, a Beech Baron (\$75,000) for the Charter Division, an Aero Commander (\$82,123) for the Survey Division and a Canso Water Bomber (\$97,921) for the Charter Division. We were able to pay for these through retained earnings, capital cost allowance and deferred payments (\$50,000 to Field Aviation Company Limited and \$71,250 to an aircraft acceptance corporation).

The Company has three divisions. Progress by divisions is detailed below.

SURVEY AIRCRAFT DIVISION

This Division operates under a long term contract on behalf of Hunting Survey Corporation Limited. The contract calls for Hunting to pay all costs of the Division plus an annual fee.

The Division has been active and in the last year carried out operations in Canada, Greenland, Denmark, Borneo, Timor, Chile, Argentina, Nicaragua, Guatemala and the West Indies.

Operations for 1964 appear to be on a comparable scale to 1963 and some further modernization of the fleet will doubtless take place.

HELICOPTER DIVISION

The Helicopter Division owns a number of large helicopters. However it has arrangements for leasing additional machines as needed. For instance in 1963 we placed in the Arctic on behalf of the Canadian Army two helicopters and two small machines, but having only one of our own aircraft uncommitted, we met the requirement through leasing but using our own crews.

So far in 1964 our utilization has been good. We have had one helicopter flying from a ship in connection with sealing and our one available S.55 has had extensive use on various contracts for government and industry associated with fishery research. We expect to get this aircraft, plus others, usefully employed for the summer season.

Our policy in this Division is to seek long term contracts which in turn would justify the acquisition of new equipment. We have under active discussion several such prospects, both in Canada and abroad, certain of which are likely to come to a head in 1964. I expect, therefore, to see this Division profitable once more in 1964 and with its earnings expanding in future years.

KENTING AVIATION LIMITED

CHARTER DIVISION

This division came into being in 1963 with the acquisition of a Beech Baron. It represents, perhaps, the main growth area of the Company.

Having operated all over the world, Kenting's crews have built a very wide experience of operating conditions from the Arctic to the Tropics. This experience we are able to offer to those requiring executive charter services.

We have three main services to offer. First, where a client has a year-round requirement for an aircraft we will provide it, crew it and take all management responsibility. Normally we can save the client money and worry.

Second, we provide short term charter services. For instance our Beech Baron carries four or five passengers at about 12 cents per passenger mile. Since we take off and return to suit the charterer, and can go to airports not served by airlines, we can save a great deal of time at rates not too significantly higher than the airlines.

Our business on this side is growing every month. To operate profitably we must exceed 35 hours of charter per month for each aircraft. We are already past this level and expect the growth to continue. We are now seeking clients who will guarantee us a minimum number of hours per year, for which they receive priority. In this way we hope to add aircraft progressively with the required revenue already assured.

Third, we provide Canso water bombers for forest fire fighting (see outer cover). This is an activity which is still in its infancy and will provide major economies in the costs of fire suppression in the future.

During 1964 we expect to operate one, possibly two, of our water bombers on behalf of provincial governments. We expect this year to prove the technique convincingly, so that in 1964 we can enlarge our fleet with supporting contracts from various governments.

Conclusion

I look on 1964 as a year during which we will lay the foundations for the future growth of our Company. It should be a satisfactory year with good earnings, but I would not expect significant growth until 1965.

We are fortunate in having excellent staff and I would like to record my thanks for their contribution to our good results in 1963. We also have a Board of Directors with wide interests who are devoting much time and energy to planning the future success of the Company. At an operating level we have good management and I believe that you can feel confident that your Company is in good hands.

D. N. KENDALL, *President.*

April 3rd, 1964

KENTING AVIATION LIMITED

Balance Sheet as at

A S S E T S		1963	1962
CURRENT ASSETS:			
Cash		\$ 65,860	\$119,649
Accounts receivable—			
Trade		34,767	114,622
Associated companies—			
Hunting Survey Corporation Limited		114,970	61,571
Hunting Mapping Inc.		129,742	—
Other		13,315	18,067
Inventory of fuel and other supplies, at cost		9,171	34,546
Prepaid expenses		31,838	38,427
		<u>\$399,663</u>	<u>\$386,882</u>
AIRCRAFT ENGINES AND SPARES: (including overhaul costs)			
Engines in service in aircraft at cost less amortization—			
Survey aircraft		\$ 51,564	\$ 35,399
Helicopters		4,556	14,500
Engines not in service and major spares and components at cost—			
Survey aircraft		31,828	39,963
Helicopters		43,095	43,991
		<u>\$131,043</u>	<u>\$133,853</u>
FIXED ASSETS:			
	Cost Depreciation		
Survey aircraft.....	\$475,111 \$271,730	\$203,381	\$144,321
Charter aircraft.....	189,001 7,146	181,855	—
Helicopters.....	136,646 124,103	12,543	37,628
Operating equipment.....	20,663 17,297	3,366	5,365
	<u>\$821,421</u> <u>\$420,276</u>	<u>\$401,145</u>	<u>\$187,314</u>
		<u>\$931,851</u>	<u>\$708,049</u>

Auditors' Report

To the Shareholders

We have examined the balance sheet of Kenting Aviation Limited as at the year ended on that date and have obtained all the information and examined the accounting procedures and such tests of accounting records and other

In our opinion, and according to the best of our information and the accompanying balance sheet and statement of profit and loss and earned state of the affairs of the company as at December 31, 1963 and the results accepted accounting principles applied on a basis consistent with that of

APRIL 3, 1964

K E N T I N G A V I A T I O N L I M I T E D

December 31st

L I A B I L I T I E S	1963	1962
CURRENT LIABILITIES:		
Accounts payable and accruals	\$118,020	\$198,637
Income taxes payable	4,297	—
Amount owing to Field Aviation Company Limited (associated company)	50,000	—
	<u>\$172,317</u>	<u>\$198,637</u>
LONG TERM DEBT:		
10% Conditional sales contract due September 20, 1968.....	\$ 71,250	—
Less—Instalment due within one year shown under accounts payable and accruals.....	15,000	—
	<u>\$ 56,250</u>	<u>—</u>
UNREALIZED PROFIT ON SALE OF FIXED ASSETS:		
(Note 2)	\$ 94,343	—
SHAREHOLDERS' EQUITY:		
Capital Stock—		
100,000 shares of a par value of 50¢ each (Authorized 400,000 shares) (Note 1)	\$ 50,000	\$ 50,000
Paid in surplus	220,000	220,000
Earned surplus, per statement attached	338,941	239,412
	<u>\$608,941</u>	<u>\$509,412</u>
 Approved on behalf of the Board:		
D. N. KENDALL, <i>Director</i>		
A. F. SOUTAR, <i>Director</i>		
	<u>\$931,851</u>	<u>\$708,049</u>

the Shareholders

ing Aviation Limited:

ember 31, 1963 and the statement of profit and loss and earned surplus for
ions we have required. Our examination included a general review of the
ting evidence as we considered necessary in the circumstances.

planations given to us and as shown by the books of the company, the
lus are properly drawn up so as to exhibit a true and correct view of the
operations for the year ended on that date, in accordance with generally
receding year.

PRICE, WATERHOUSE & Co.
Chartered Accountants.



*Kenting Beechcraft Baron
at Malton Airport
prior to take-off
on charter flight.*

KENTING AVIATION LIMITED

Statement of Profit and Loss and Earned Surplus for the Year Ended December 31, 1963

	<i>Survey Aircraft Division</i>	<i>Charter Aircraft Division</i>	<i>Helicopter Division</i>	<i>Total</i>
Profit from operations before depreciation.....	\$72,895	\$6,968	\$77,424	\$157,287
Deduct—Depreciation	43,895	7,146	1,101	52,142
Profit before the undernoted items	\$29,000	(178)	76,323	105,145
<hr/>				
Deduct—Administrative and commercial expenses.....				9,653
				<hr/> 95,492
Add:				
Profit realized on sale of fixed assets.....				10,658
Interest income				1,379
				<hr/> 12,037
Profit before provision for income taxes (Notes 3 and 4)				107,529
Income tax provision (Note 5)				8,000
Net profit for the year				<hr/> 99,529
Earned surplus at beginning of year				239,412
Earned surplus at end of year				<hr/> \$338,941

Notes to Annual Accounts

DECEMBER 31, 1963

1. On June 13, 1963 the directors granted options to purchase shares of the company to certain senior personnel as follows:
 - (a) 2,500 shares at \$6.50 per share expiring December 31, 1964.
 - (b) 2,500 shares at \$7.50 per share expiring December 31, 1965.

2. On September 25, 1963 the company sold two helicopters to Hunting Mapping Inc., an associated company, who entered into a lease-purchase agreement with another United States company. The option to purchase expires May 15, 1964. At the time of sale Kenting Aviation Limited was given an option to August 1, 1964 to repurchase the assets from the associated company at the sale price less lease payments received. Hunting Mapping Inc. gave the company a non-interest bearing promissory note for the total purchase price of the aircraft payable from rental payments received under the lease agreement.

In view of the option agreements referred to above the company at December 31, 1963 deferred the profit on sale less that amount of deferred profit realized through the receipt of lease payments which are set out in the statement of profit and loss.

3. The company has agreed to place its entire survey fleet at the disposal of Hunting Survey Corporation Limited until December 31, 1966, for which Hunting Survey Corporation Limited has agreed to pay:
 - (a) all costs of operating the Survey Aircraft Division including applicable management salaries and other overhead expenses;
 - (b) depreciation on the aircraft in the survey fleet on a straight line basis at the rate of 20% per annum on the net book value of aircraft on hand at September 1, 1962 and on cost of any aircraft acquired after that date; and
 - (c) \$25,000 per year plus additional fees to be negotiated.

4. Salaries and other remuneration of salaried directors, executive officers and counsel and solicitors' fees amounting to \$13,000 have been deducted in the statement of profit and loss.
5. For income tax purposes, the company intends to claim capital cost allowances of \$62,000 in excess of depreciation recorded in the accounts thereby reducing income taxes otherwise payable for the year by approximately \$32,000.

The accumulated reduction in income taxes payable to December 31, 1963 in respect of capital cost allowances claimed for income tax purposes in excess of depreciation recorded in the accounts amounted to approximately \$63,000.



